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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCKET CONTROL**COMMISSIONERS**

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IN THE MATTER OF THE APPLICATION OF
SULPHUR SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC. FOR A HEARING TO
DETERMINE THE FAIR VALUE OF ITS
PROPERTY FOR RATEMAKING PURPOSES,
TO FIX A JUST AND REASONABLE
RETURN THEREON, TO APPROVE RATES
DESIGNED TO DEVELOP SUCH RETURN
AND FOR RELATED APPROVALS.

DOCKET NO. E-01575A-08-0328

STAFF'S CLOSING BRIEF**I. INTRODUCTION**

Sulphur Spring Valley Electrical Cooperative ("SSVEC") is a certificated Arizona-based non-profit rural electric distribution cooperative.¹ SSVEC is member-owned and is headquartered in Wilcox, Arizona.² SSVEC provides power and energy to approximately 50,000 customers in most of Cochise County and portions of Santa Cruz, Pima, and Graham counties in Arizona.³ On June 30, 2008, SSVEC filed an application for an increase in rates in the above-captioned matter. SSVEC is requesting an increase in revenue of \$9,862,959 or 10.65% increase in revenue for a total of \$102,688,240 in total annual revenue.⁴ SSVEC's current rates were authorized in Decision No. 58358, approved on July 23, 1993.⁵

SSVEC is a Class A member of Arizona Electric Power Cooperative ("AEP CO").⁶ On January 1, 2008, SSVEC converted its membership in AEP CO from an All Requirements Member ("ARM") to a Partial Requirements Member ("PRM"), pursuant to Decision No. 70105.⁷

¹ Direct Test. of Crystal Brown, Ex. S-6 at 2.² Direct Test. Of Creden Huber, Ex. A-2 at 4.³ Ex. S-6 at 2.⁴ Rejoinder Test. of David Hedrick, Ex. A-9, at DH-4.0.⁵ Ex. A-1 at 2.⁶ Ex. A-2 at 5.⁷ *Id.*

Arizona Corporation Commission

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1 In this brief Staff will address its position regarding adjustments to Operating Margin,
2 Demand Side Management ("DSM"), the Wholesale Power Cost Adjuster, Rate Design, Power
3 Procurement, and issues where Staff and SSVEC are in agreement. It is important to remember in
4 evaluating this case that it has been over 16 years since SSVEC has been in front of the Commission
5 for a rate case, and as mentioned above, SSVEC only recently became a PRM of AEPCO.

6 II. OPERATING MARGIN ADJUSTMENTS

7 A. The Commission Should Not Allow SSVEC To Include \$523,570 Of Post-Test 8 Year Employee Payroll, Benefits, And Payroll Taxes.

9 SSVEC is proposing to increase operating expenses by \$1,021,207 to reflect the employee
10 payroll, benefits, and payroll taxes of 189 full-time employees and 16 part-time employees using
11 2008 wage levels.⁸ However, this amount included 10 employees that SSVEC hired in 2008, after
12 the test-year.⁹ Staff is recommending a decrease in operating expenses by \$523,570.¹⁰

13 SSVEC contends that the inclusion of the costs associated with these 10 employees is justified
14 because these employees are necessary for the provision of continued reliable electric service.¹¹
15 SSVEC however freely admits that it has not had any problems with service or quality levels to
16 date,¹² and that these 10 employees were hired by SSVEC after the 2007 test-year.¹³ Staff finds it
17 problematic to include these expenses because SSVEC did not demonstrate that the number of
18 employees that SSVEC had during the 2007 test-year was low.¹⁴ In addition, the inclusion of these
19 expenses in the test-year creates a matching problem because these expenses were not matched with
20 the revenues of the same period.¹⁵

21 SSVEC also claims that the inclusion of these expenses is reasonable given the inherent
22 regulatory lag that exists in this process,¹⁶ and that waiting to hire additional staff until quality and
23 service levels decline is not an appropriate way to manage a cooperative.¹⁷ However, these

24 ⁸ Ex. S-6 at 18.

25 ⁹ *Id.*

26 ¹⁰ *Id.*

27 ¹¹ Ex. A-9 at 3.

28 ¹² *Id.*

¹³ Tr. at 207-08.

¹⁴ *Id.* at 355.

¹⁵ *Id.*

¹⁶ Ex. A-9 at 4.

¹⁷ *Id.* at 3.

1 arguments should be given little weight. Staff is not suggesting that SSVEC should wait until quality
2 and service levels decline, and SSVEC is free to file a rate case more frequently than every 16 years.

3 **B. The Commission Should Not Allow SSVEC To Include \$298,622 Of Charitable**
4 **Contributions Expense.**

5 SSVEC included \$298,622 in charitable contribution expenses as part of its operating
6 margin.¹⁸ SSVEC claims that the Commission, in Decision No. 58358, authorized it to include
7 charitable contributions.¹⁹ In fact, SSVEC claims that decision authorized SSVEC to include
8 charitable contribution expenses on a going forward basis.²⁰ However, when asked, Jack Blair, the
9 Company's witness admitted that he did not include any reference from that decision that would
10 allow the inclusion of charitable contribution expense on a going forward basis.²¹ Further, when
11 asked about the decision, Mr. Blair admitted that the decision only indicated the charitable
12 contribution expense would be disallowed if SSVEC did not take certain steps outlined in the
13 decision, and not that they would automatically be allowed if they followed those steps.²²

14 It is Staff's recommendation that the \$298,622 in charitable contribution expense be removed
15 from operating margin.²³ It is Staff's position that charitable contributions are not needed in the
16 provision of service, and the mere fact that the Commission allowed the Company that expense in the
17 past does not mean the company is entitled to that expense in this case.²⁴ In fact, the trend of the
18 Commission in recent years has been to disallow charitable contribution expenses because they are
19 not necessary for the provision of service.²⁵ On that point, SSVEC admitted that charitable
20 contributions are not something the Company is obligated to pay.²⁶ The Company further admitted
21 that if it is authorized by the Commission to include \$297,622 in charitable contribution expense, but
22 did not ultimately spend that amount, its margins would be higher.²⁷

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24 ¹⁸ Rebuttal Test. of John Blair, Ex. A-18 at 12.

25 ¹⁹ *Id.* at 14-15.

26 ²⁰ Tr. at 315.

27 ²¹ *Id.* at 316.

28 ²² *Id.* at 346.

²³ Ex. S-6 at 20.

²⁴ Tr. at 357.

²⁵ *Id.*

²⁶ *Id.* at 210-11.

²⁷ *Id.* at 218.

1 **C. The Commission Should Not Allow SSVEC To Include \$45,058 Of Incentive Pay.**

2 SSVEC is proposing to include \$45,058 in incentive pay as part of its operating margin.²⁸
3 Incentive pay is made up of two components, \$24,557 is related to safety performance, and \$20,500
4 is related to Christmas bonuses.²⁹ The Company contends that both of these have been consistently
5 paid to SSVEC employees, and are merely part of the entire compensation package.³⁰

6 Staff is recommending an adjustment to operating margins that removes the \$45,058 of
7 Christmas bonus and safety performance pay.³¹ It is Staff's position that SSVEC pays its employees
8 competitive salary, wage and benefits packages with regular annual wage increases, and that these
9 costs are designed to compensate the employees to perform work that will enable the Cooperative to
10 provide safe and reliable service.³² While Staff is not recommending that SSVEC cease paying its
11 employees incentive pay, it is an optional cost that should not be recovered through rates.³³ The
12 Company admitted that neither the Christmas bonuses nor the safety pay were part of base pay.³⁴

13 **D. The Commission Should Only Allow SSVEC To Recover \$100,000 In Rate Case**
14 **Expense.**

15 SSVEC is seeking a total of \$397,608 in rate case expense in this proceeding.³⁵ SSVEC is
16 recommending that the Commission allow it to include all of the rate case expense in the revenue
17 requirement, and that it be amortized over a five-year period.³⁶ This would result in a yearly adjusted
18 amount of \$79,522.³⁷ Staff recommends that the Commission allow SSVEC to recover \$100,000 in
19 rate case expense for this case, and that it be amortized over five years.³⁸ This produces a yearly rate
20 case amount of \$20,000.³⁹ It is important to note that this is the amount that SSVEC was originally
21 seeking when it filed its application.⁴⁰

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23 ²⁸ Rebuttal Test. of David Hedrick, Ex. A-8 at 11.

24 ²⁹ *Id.*

25 ³⁰ Ex. A-9 at 4.

26 ³¹ Ex. S-6 at 21.

27 ³² Surrebuttal Test. of Crystal Brown, Ex. S-7 at 8.

28 ³³ *Id.* at 9.

29 ³⁴ Tr. at 210.

30 ³⁵ Ex. A-8 at 12.

31 ³⁶ *Id.*

32 ³⁷ *Id.*

33 ³⁸ Tr. at 354-55.

34 ³⁹ Ex. S-7 at 9.

35 ⁴⁰ Direct Test. of Rebecca Payne, Ex. A-15 at 7.

1 Staff believes that SSVEC could have avoided this increase in rate case expense by (1)
2 determining a rate case budget, (2) evaluating the strength of the issues in the case, and (3) assessing
3 the marginal benefit of each cost.⁴¹ It is Staff's position that SSVEC did none of these things to
4 manage the rate case process.⁴² It is Staff's contention that all of SSVEC's rate case expenses above
5 the original \$100,000 estimate are uncontrolled costs that are unreasonable.⁴³

6 Even SSVEC agrees it could have estimated the total amount of rate case expense and that it
7 would have given the parties the ability to compare actual costs with the budget.⁴⁴ SSVEC also
8 agrees that merely having an invoice for rate case expense does not justify the expense and that it
9 should be subject to a prudence review.⁴⁵ Taking all of this into account, Staff believes that had
10 SSVEC been more proactive in managing its rate case expense it could have avoided quadrupling
11 those costs from its original lump sum estimate of \$100,000.⁴⁶ Since SSVEC did not provide a
12 detailed budget of rate case expense, Staff was only able to compare its rate case expense against the
13 lump sum estimate. Staff was left with no reasonable alternative but to recommend allowance of
14 SSVEC's original estimate of rate case expense. It is important to note that in SSVEC's last rate case
15 the Commission ultimately allowed SSVEC to include its original estimate of rate case expense in
16 revenue.⁴⁷ That is what Staff is recommending in this case.

17 **III. DEBT SERVICE COVERAGE RATIO AND CAPITAL STRUCTURE**

18 **A. Capital Structure.**

19 Pursuant to Decision No. 70027, SSVEC's is seeking to attain 30% equity by 2016.⁴⁸ Staff
20 agrees that the year 2016 is a reasonable period in which to obtain a 30% equity to long-term debt
21 capitalization ratio.⁴⁹ The disagreement that exists between SSVEC and Staff relates to the revenue
22 requirement that allows the company to attain that goal by 2016.

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⁴¹ Ex. S-7 at 9-10.

⁴² *Id.* at 10.

⁴³ Tr. at 361.

⁴⁴ *Id.* at 223.

⁴⁵ *Id.* at 226.

⁴⁶ *Id.* at 358-59.

⁴⁷ Dec. No. 58358 at 15.

⁴⁸ Ex. A-8 at 13-14.

⁴⁹ Ex. S-7 at 12.

1 **B. Revenue Requirement And Debt Service Coverage.**

2 SSVEC claims that its proposed revenue requirement would produce a net margin of
3 \$10,267,812 that is sufficient for it to reach a 30% equity level by 2016.⁵⁰ Staff is recommending a
4 net margin of \$8,926,940.⁵¹ It is Staff's belief that this net margin will increase SSVEC's equity, and
5 that the company can lower the amount of its anticipated long-term debt by utilizing \$3 million from
6 its \$8.8 million in net margins.⁵² Staff also believes that SSVEC's long-term debt will begin to fall
7 by at least 10% per year after the Commission approved financing of \$70.78 million is fully drawn by
8 approximately 2013.⁵³

9 SSVEC claims that Staff's proposed revenue requirement does not provide sufficient margins
10 to increase equity to the recommended 30% level.⁵⁴ First it is important to note that Cooperative
11 Finance Corporation ("CFC") only requires a debt service coverage ("DSC") of 1.35.⁵⁵ Staff's
12 recommendation produces a DSC of 2.12.⁵⁶ There are several fundamental differences between
13 SSVEC's proposal and Staff's recommendation. First, Staff excludes non-operating revenue from its
14 DSC calculation.⁵⁷ Second, Staff also excludes capital credits from this calculation.⁵⁸

15 SSVEC on the other hand, developed its revenue requirement, in part, to allow for higher
16 capital credit retirements.⁵⁹ In addition, SSVEC made assumptions on long-term debt that are not
17 reasonable and Staff adjusted those projections downward by 10%.⁶⁰ SSVEC admitted that the debt
18 projections that it made represented the minimum amount of debt that it could incur, not that it would
19 incur.⁶¹

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23 ⁵⁰ Ex. A-8 at 15.

24 ⁵¹ Ex. S-7, Ex. CSB-8.

25 ⁵² *Id.* at 12.

26 ⁵³ *Id.*

27 ⁵⁴ Ex. A-9 at 8.

28 ⁵⁵ Ex. S-6 at 24.

⁵⁶ Ex. S-7 at 11.

⁵⁷ Ex. S-6 at 25.

⁵⁸ *Id.*

⁵⁹ Ex. A-2 at 12.

⁶⁰ Tr. at 396-97.

⁶¹ *Id.* at 242.

1 **IV. DEMAND SIDE MANAGEMENT AND RENEWABLE ENERGY STANDARD AND**
2 **TARIFF**

3 Staff and SSVEC are largely in agreement regarding demand side management (“DSM”) and
4 the Renewable Energy Standard and Tariff (“REST”). Staff enumerated sixteen recommendations
5 relating to DSM and REST.⁶² The Company in turn assigned numbers to each of the
6 recommendations in rebuttal testimony that Staff believes is helpful in identifying the issues where
7 SSVEC and Staff are in agreement and those that remain unresolved.⁶³ Of the sixteen
8 recommendations that Staff made in its direct testimony, only one issue remains regarding the reset of
9 the DSM adjustor rate.⁶⁴ However, there are several issues that were resolved prior to the hearing in
10 this matter that warrant some discussion.

11 First, regarding Recommendation No. 5, Staff recommends that SSVEC continue to report on
12 its DSM expenses semi-annually.⁶⁵ SSVEC agrees with this recommendation, but asks to be able to
13 file on March 1st and September 1st each year.⁶⁶ The September 1st report would report on DSM
14 program expenses from January through June, and the March report would report on DSM program
15 expenses from July through December.⁶⁷ Staff agrees with SSVEC’s request because it would not
16 result in a material change to the reporting, but recommends that the reports be filed by March 1st and
17 September 1st each year instead of on those dates.⁶⁸ SSVEC agrees with Staff.

18 Second, regarding Recommendation No. 7, Staff recommends that SSVEC’s DSM program
19 expense reports contain the following information:

- 20 • The number of measures installed/homes built/participation level;
21 • Copies of marketing materials;
22 • Estimated cost savings to participants;
23 • Gas and electric savings as determined by the monitoring and evaluation process;
24 • Estimated environmental savings;

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26 ⁶² Direct Test. of Steve Irvine, Ex. S-10 at 23-25.

27 ⁶³ Surrebuttal Test. of Steve Irvine, Ex. S-11 at 2.

28 ⁶⁴ Rejoinder Test. of John Blair, Ex. A-19 at 2.

⁶⁵ Ex. S-11 at 3.

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.*

- The total amount of the program budget spent during the previous six months and, in the end of year report, during the calendar year;
- The amount spent since the inception of the program;
- Any significant impacts on the program cost-effectiveness;
- Descriptions of any problems and proposed solutions, including movements of funding from one program to another;
- Any major changes, including termination of the program.⁶⁹

Staff also recommends that SSVEC submit to the Commission, through Docket Control, a filing by April 1st of each year that includes its proposed new DSM adjustor rate and that the filing be considered and adjudicated by the Commission in Open Meeting.⁷⁰

SSVEC agrees with Staff regarding the content of the semi-annual DSM reports, but as discussed above requests a March 1st and September 1st filing deadline. Further, regarding the annual reset of the DSM adjustor, SSVEC proposes that it be able to make its filing on March 1st instead of April 1st for two reasons.⁷¹ First, SSVEC wants to coordinate its DSM adjustor rate filing with its March 1st expense report filing in order to reduce the number of DSM compliance deadlines.⁷² Second, although SSVEC does not oppose Staff's recommendation that the DSM adjustor rate be considered and adjudicated by the Commission, it wants additional time to ensure that the matter would be able to be considered by the Commission at its May Open Meeting.⁷³

Staff agrees with the Company's proposal regarding the format of the DSM program expense reporting and in principle with the Company's proposal regarding the timing of the filing of the expense and adjustor reports.⁷⁴ However, as with the filing of the DSM expense reports, Staff believes the DSM adjustor reset should be filed by March 1st and not on March 1st.⁷⁵ Staff believes

⁶⁹ Ex. S-11 at 4.

⁷⁰ *Id.*

⁷¹ Rebuttal Test. of John Blair, Ex. A-18 at 5-6.

⁷² *Id.* at 6.

⁷³ Ex. A-18 at 6.

⁷⁴ Ex. S-11 at 4-5.

⁷⁵ *Id.* at 5.

1 this will provide the Company with the flexibility to file early if convenient.⁷⁶ SSVEC agrees with
2 Staff.

3 Third, regarding Recommendation No. 8, Staff recommends that SSVEC's DSM adjustor rate
4 be reset annually on June 1st of each year, and that the per kWh rate be based upon currently
5 projected DSM costs for that year, adjusted by the previous year's over or under collection, divided
6 by projected retail sales for that same year.⁷⁷

7 SSVEC does not appear to take issue with the method of calculation recommended by Staff
8 for the DSM adjustor rate.⁷⁸ Further, SSVEC and Staff appear to be in agreement regarding the June
9 1st reset date.⁷⁹ However, SSVEC believes that the Commission should treat the June 1st reset date as
10 a "hard" deadline.⁸⁰ This is discussed further in recommendation No. 9 below.

11 Fourth, regarding Recommendation No. 9, Staff recommends that SSVEC's annually
12 proposed new DSM adjustor rate become effective on June 1st after approval by the Commission.⁸¹
13 This is the only remaining contested issue relating to DSM. As indicated above, SSVEC believes the
14 Commission should treat the June 1st reset date as a "hard" deadline.⁸² SSVEC has no objection to
15 providing the Commission with the opportunity to consider and adjudicate the filing at Open Meeting
16 as recommended by Staff. However, SSVEC believes that with the additional 30 days provided by
17 filing earlier, it is only appropriate that if the Commission does not approve the filing by June 1st that
18 the new adjustor will automatically become effective.⁸³ First, SSVEC argues that this provides the
19 Commission with the opportunity to consider and approve the matter at Open Meeting to the extent
20 Staff believes it is necessary and appropriate.⁸⁴ Second, with the additional 30 days that SSVEC is
21 proposing, Staff will have sufficient time to review the filing and make its recommendation to the
22 Commission.⁸⁵ SSVEC claims that if Staff is unable to review the filing in a given year, or, after
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24 ⁷⁶ Ex. S-11 at 5.

25 ⁷⁷ *Id.*

26 ⁷⁸ *Id.* at 5-6.

27 ⁷⁹ Ex. A-19 at 2.

28 ⁸⁰ Ex. A-18 at 6.

⁸¹ Ex. S-11 at 7.

⁸² Ex. A-18 at 6.

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *Id.* at 7.

1 reviewing the filing determines that it is not necessary that the matter be adjudicated by the
2 Commission, SSVEC will not be disadvantaged by having to wait to recover additional program
3 expenses until such time that Staff and the Commission act on the filing.⁸⁶ SSVEC further claims
4 that even if this should occur, the Commission would still have another opportunity the next year to
5 true-up the adjustor.⁸⁷

6 It is Staff's position that SSVEC's suggested treatment of the DSM adjustor reset is not
7 appropriate.⁸⁸ Adjudication of the filing by the Commission will allow the Commission to directly
8 manage recovery of the DSM adjustor rate and the impact it has on ratepayers.⁸⁹ In addition, since
9 changes to the DSM adjustor rate do have a direct impact on customer bills, it is appropriate that the
10 adjustor rate be set pursuant to an Order of the Commission.⁹⁰ Finally, it is worth noting that there
11 is no need for an automatic reset of the DSM adjustor rate because SSVEC would be able to continue
12 to recover its DSM program expenses through the existing rate until the Commission approves a new
13 rate. Uncollected expenses are recorded in the DSM adjustor account and can be recovered through
14 future rates so that in the long run there won't be any loss for having waited on implementation of a
15 new adjustor rate.⁹¹

16 Fifth, regarding Recommendation No. 10, Staff recommends that SSVEC submit its proposed
17 DSM programs to the Commission for approval.⁹² SSVEC agrees with this recommendation, but
18 argues that it should have the ability to commence offering new DSM programs prior to Commission
19 approval and report those expenses as part of its semi-annual reports.⁹³ SSVEC indicates that if the
20 program is not subsequently approved by the Commission it would not be permitted to recover
21 expenses associated with that program, but when and if the program is approved by the Commission
22 it would be able to recover the expenses through the DSM adjustor true-up to the date it started
23 offering the program.⁹⁴ Staff agrees.⁹⁵

24 _____
25 ⁸⁶ Ex. A-18 at 7.

26 ⁸⁷ *Id.*

27 ⁸⁸ Ex. S-11 at 7.

28 ⁸⁹ *Id.*

⁹⁰ *Id.*

⁹¹ Tr. at 541.

⁹² Ex. S-11 at 8.

⁹³ Ex. A-18 at 7.

⁹⁴ *Id.* at 7-8.

1 Sixth, regarding Recommendation No. 11, Staff recommends that SSVEC file an application
2 requesting approval of the new DSM programs SSVEC proposed in this case.⁹⁶ On this issue,
3 SSVEC would like to have the proposed DSM programs approved in this case, and suggests that Staff
4 endeavor to analyze and make recommendations on the new programs within this rate case.⁹⁷ Staff
5 intends to file a late-filed exhibit with its recommendations regarding the three DSM programs that
6 SSVEC submitted with its application.⁹⁸

7 Finally, regarding Recommendation No. 13, Staff recommends that prudently incurred costs
8 associated with approved DSM programs that have been factored into the Wholesale Power Cost
9 Adjustor ("WPCA") account balance remain in the WPCA balance.⁹⁹ SSVEC agrees that DSM
10 program expenses that have not yet been fully recovered through the WPCA would remain in the
11 WPCA and that 2007 and 2008 program expenses that are currently being reviewed by Staff for
12 approval pursuant to Decision No. 58358 would also be recovered through the WPCA.¹⁰⁰ All 2009
13 approved program expenses would be reported and potentially recoverable through the DSM
14 adjutor.¹⁰¹ Staff agrees with the SSVEC's description of the appropriate treatment of existing
15 program expenses, 2007 and 2008 expenses and 2009 expenses.¹⁰²

16 **V. WHOLESALE POWER COST ADJUSTOR**

17 The Wholesale Power Cost Adjustor is a purchased power adjutor that uses charges or credits
18 to compensate for the difference between the base cost of power and the actual cost of wholesale
19 power.¹⁰³ SSVEC tracks its over-collections and under-collections for the cost of power and
20 transmission using a bank balance.¹⁰⁴ Currently, SSVEC has the ability to adjust its WPCA to reduce
21 large positive or large negative balances, which results in the return of over-collections to ratepayers,
22 or an increase in the WPCA to pay down the under-collections.¹⁰⁵

23 ⁹⁵ Ex. S-11 at 8.

24 ⁹⁶ *Id.*

25 ⁹⁷ Ex. A-18 at 9.

26 ⁹⁸ Tr. at 573.

27 ⁹⁹ Ex. S-11 at 9.

28 ¹⁰⁰ Ex. A-18 at 10.

¹⁰¹ *Id.*

¹⁰² Ex. S-11 at 10.

¹⁰³ Direct Test. of Julie McNeely-Kirwan, Ex. S-12 at 5.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

1 As indicated above, SSVEC currently has the authority to change the WPCA rate without
2 Commission approval.¹⁰⁶ SSVEC proposes that it be allowed to adjust its WPCA rate without
3 Commission approval, unless such adjustment would result in a cumulative annual increase in the
4 total average rate collected from customers per kWh greater than 10%.¹⁰⁷ SSVEC further proposes
5 that any increases submitted to the Commission for approval in excess of the 10% limit would
6 become effective in 60 days unless the Commission took action.¹⁰⁸ SSVEC claims that its
7 recommendation would allow it to timely recover routine fluctuations in fuel costs without
8 Commission approval, and would also ensure that no significant increase or "rate shock" is
9 implemented unless approved by the Commission.¹⁰⁹

10 Staff recommends that SSVEC be required to submit proposed increases to the WPCA rate to
11 the Commission for approval, but not be required to seek approval for decreases to its WPCA rate.¹¹⁰
12 Staff does not agree with the 60 day limit that SSVEC is proposing.¹¹¹ In addition, Staff is
13 recommending the establishment of thresholds that would trigger changes in the WPCA for both
14 over- and under- collected bank balances.¹¹² Specifically, Staff recommends a \$2 million threshold
15 for under-collections, and a \$1 million threshold for over-collections.¹¹³ SSVEC ultimately agreed
16 with the thresholds that Staff is recommending.¹¹⁴

17 The threshold for under-collected bank balances would be required to file an application to
18 increase the WPCA rate either when the bank balance reaches the \$2 million threshold for under-
19 collected balances for two consecutive months, or when it reasonably anticipates that the threshold
20 will be reached within six months and would continue at or above the threshold for two or more
21 consecutive months.¹¹⁵ This under-collection threshold would limit the size of any negative bank
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24 ¹⁰⁶ Ex. S-12 at 5.

25 ¹⁰⁷ Ex. A-8 at 19.

26 ¹⁰⁸ *Id.*

27 ¹⁰⁹ *Id.* at 19-20.

28 ¹¹⁰ Ex. S-12 at 7-8.

¹¹¹ Surrebuttal Test. of Julie McNeely-Kirwan, Ex. S-13 at 5.

¹¹² Ex. S-12 at 8.

¹¹³ *Id.* at 9.

¹¹⁴ Ex. A-9 at 12.

¹¹⁵ Ex. S-12 at 8.

1 balance that could accumulate, limit increases to the WPCA, and ultimately limit rate shocks to the
2 customers.¹¹⁶

3 The way the threshold would work regarding over-collected bank balances is that SSVEC
4 may return over-collected bank balances to its customers at any time, except it must use the WPCA
5 mechanism to return over-collections once it reaches the \$1 million threshold and remains over that
6 threshold amount for two consecutive months.¹¹⁷ This over-collection threshold would ensure that
7 positive bank balances would be returned to customers in a timely and predictable fashion.¹¹⁸

8 Regarding the WPCA, it is Staff's belief that SSVEC's recent transition to a PRM of AEPCO
9 has caused SSVEC's energy costs to be more volatile, and that this volatility has directly impacted
10 the WPCA rate.¹¹⁹ Beyond the practical reasons for requiring Commission approval of any increases
11 to the WPCA rate, on a more fundamental level the Commission has the authority and the obligation
12 to set fair, just, and reasonable rates for Arizona utility ratepayers.¹²⁰ This rate setting includes the
13 ways in which purchased power or fuel costs are passed on to customers.¹²¹ Requiring Commission
14 approval would allow the Commission to ensure that the request that SSVEC is making is
15 appropriate, and that the supporting projections were reasonable.¹²² It would also allow the
16 Commission to assist in designing cost recovery to limit rate shocks by instituting graduated
17 increases and by limiting increases during the peak-usage months.¹²³

18 Staff also foresees a number of problems regarding SSVEC's recommendation regarding the
19 WPCA. First, there is no way of knowing, and the Company did not provide, what the actual impact
20 would be on customer bills.¹²⁴ Second, SSVEC's proposal is unduly complex and it would be
21 difficult to track in terms of compliance with the 10% limit the Company is recommending.¹²⁵ Third,
22 because of its complexity, it is unlikely to be transparent to ratepayers.¹²⁶

23 ¹¹⁶ Ex. S-12 at 9.

24 ¹¹⁷ *Id.* at 8.

¹¹⁸ *Id.* at 9.

25 ¹¹⁹ *Id.* at 7; see also S-12 at 6, Table 2.

¹²⁰ Ex. S-12 at 10.

26 ¹²¹ *Id.*

¹²² Ex. S-13 at 2.

27 ¹²³ *Id.*

¹²⁴ Tr. at 598.

28 ¹²⁵ *Id.*

¹²⁶ *Id.*

1 Another problem that exists is that there appears to be some confusion from SSVEC regarding
2 how its proposal actually functions. As indicated above, SSVEC would like to be able to adjust its
3 WPCA without Commission approval, unless such adjustment would result in a cumulative annual
4 increase in the total average rate collected from customers per kWh greater than 10%.¹²⁷ However
5 during the hearing, SSVEC seemed to set forth a variation of this proposal. SSVEC indicated that if
6 the WPCA does not increase the customer's bill by more than 10% in a given 12-month period, then
7 there would be no Commission approval required.¹²⁸ If an increase in the WPCA was necessary that
8 would cause the bills to be higher than 10% in a 12-month period, the amount in excess of 10%
9 would have to be approved by the Commission.¹²⁹ In other words, it is not altogether clear whether
10 SSVEC's model is based on 10% of the fuel costs, as it seems to indicate in its written testimony, or
11 whether it is based on 10% of total customer bills, as it seemed to indicate during the hearing.¹³⁰

12 VI. RATE DESIGN

13 A. Customer Related Charges.

14 SSVEC is seeking to increase the monthly customer charge from \$7.50 to \$12.50 or a 66.67%
15 increase for residential customers.¹³¹ SSVEC is seeking similar significant increases in monthly
16 charges for other customer classes.¹³² The Company asserts that its proposed increases in customer
17 charges are more reflective of the cost of providing service.¹³³ SSVEC claims that in order to send
18 the proper pricing signal, the fixed customer charge component of the rate should be increased closer
19 to the actual costs.¹³⁴ The Company also admits that an increase in the customer charge promotes the
20 de-coupling of rates, thereby making SSVEC less dependent upon the sale of energy to recover its
21 distribution costs.¹³⁵

22 Staff is recommending more reasonable increases in customer-related charges. While Staff
23 did not lose sight of the fact that more than sixteen years will have passed since SSVEC's last rate

24 ¹²⁷ Ex. A-8 at 19.

25 ¹²⁸ Tr. at 256-57.

26 ¹²⁹ *Id.* at 257.

¹³⁰ *Id.* at 663.

¹³¹ Ex. A-8, Ex. DH-14.

27 ¹³² Direct Test. of William Musgrove, Ex. S-8, Ex. WHM-2 at 1.

¹³³ Ex. A-8 at 20.

28 ¹³⁴ *Id.*

¹³⁵ *Id.* at 21.

1 case, significant increases to fixed monthly customer charges makes it much more difficult for
2 customers to implement conservation measures or more prudent utilization of energy to reduce the
3 amount of their total monthly bills to more manageable levels.¹³⁶ Staff is recommending an increase
4 in the monthly customer charge from \$7.50 to \$8.25 or a 10% increase for residential customers.¹³⁷
5 Staff's recommended increases to the other customer charges are based on similar considerations that
6 embody three basic rate design principles.¹³⁸

7 The first principle is gradualism. Staff believes that it is unreasonable to expect customers'
8 budgets to absorb increases that average 63.08% in one step.¹³⁹ Staff is only recommending a
9 comparable 9.98% increase.¹⁴⁰ Another point to consider is that SSVEC's proposed increase for
10 residential customers would recover approximately 54% of customer charge related costs whereas
11 Staff's recommended increase would only recover approximately 35% of customer related charges.¹⁴¹
12 This is a more reasonable pace towards recovery of SSVEC's costs.

13 The second principle of rate design involves the comparison of SSVEC's proposed rate
14 increase with Staff's recommended increase.¹⁴² In this case SSVEC requested an increase in total
15 operating revenues in the amount of approximately \$10.9 million compared to Staff's recommended
16 amount of approximately \$6.4 million.¹⁴³ In other words, in designing rates, Staff had to take into
17 consideration the fact that SSVEC's proposed rates were designed to collect approximately \$4.5
18 million more in operating revenues than Staff's \$6.4 million.¹⁴⁴ SSVEC asserts that Staff's number
19 should increase to \$7.6 million due to the inclusion of the Fort Huachuca revenues.¹⁴⁵ This option
20 never existed for Staff because Fort Huachuca is a separate customer rate class, and there can be no
21 cross-subsidization between the other rate classes and Fort Huachuca.¹⁴⁶

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23
24 ¹³⁶ Surrebuttal Test. of William Musgrove, Ex. S-9 at 2.

¹³⁷ Ex. S-8, Ex. WHM-2 at 1.

¹³⁸ Ex. S-9 at 3.

¹³⁹ *Id.*

¹⁴⁰ *Id.*

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Id.*; Ex. S-7 at 11.

¹⁴⁴ *Id.*

¹⁴⁵ Ex. A-9 at 16.

¹⁴⁶ Tr. at 524.

1 The third principle of rate design is the equitable allocation of revenues. In this case, Staff
2 determined that the most equitable way to allocate its proposed revenues was to use the allocations
3 proposed by SSVEC, but with approximately \$4.5 million less to allocate compared to SSVEC's
4 proposal.¹⁴⁷ For example, in the residential rate class, SSVEC and Staff allocated approximately 12%
5 of their respective proposed total incremental revenues for this class to their respective residential
6 customer charges.¹⁴⁸

7 **B. Service Related Charges.**

8 SSVEC is in agreement with Staff regarding all service fee charges except for Existing
9 Member Connect and Non-Pay Trip Fee – Regular Hours.¹⁴⁹ SSVEC is proposing \$50 for each of
10 these charges, and Staff is recommending \$40.¹⁵⁰ SSVEC asserts that its proposed increase in service
11 related charges moves the charges closer to the actual cost of providing the service.¹⁵¹ It is Staff's
12 position that the difference in what SSVEC is proposing and what Staff is recommending would
13 produce approximately \$200,000 in additional revenues, which is much more than a de minimus
14 amount.¹⁵² In addition, Staff had fully allocated the recommended \$6.4 million increase to other rate
15 classes and service charges.¹⁵³ The resultant percent increases in Staff's recommended service charge
16 rates are supported by increases incurred in related labor costs over the 16-year Test Year period since
17 SSVEC's last rate case. SSVEC only reported two cost components associated with service charge-
18 related activities (labor and transportation). Staff addressed changes in transportation-related
19 expenses by supporting SSVEC's recommendation to replace its existing \$0.40 per mile rate cap with
20 the Federal Government's posted mile rate, which will allow recovery of its transportation-related
21 expenses through its service call fees.

22
23
24
25

¹⁴⁷ Tr. at 524.

26 ¹⁴⁸ *Id.*

27 ¹⁴⁹ Ex. A-9 at 18.

28 ¹⁵⁰ Ex. S-8, Ex. WHM-2 at 2; Ex. A-9, Ex. DH-6.0.

¹⁵¹ Ex. A-9 at 17-18.

¹⁵² Tr. at 477-478.

¹⁵³ *Id.*

1 **VII. POWER PROCUREMENT**

2 It is not in dispute that SSVEC converted from an All Requirements Member ("ARM") to a
3 Partial Requirements Member ("PRM") of Arizona Electric Power Cooperative on January 1,
4 2008.¹⁵⁴ What this equates to is that SSVEC, as a PRM, is responsible for procuring wholesale
5 power needed to supplement the power that it procures from AEPCO.¹⁵⁵ SSVEC throughout the
6 course of this case indicated that this means it would be purchasing approximately 80% of its power
7 from AEPCO and 20% from other sources.¹⁵⁶ In reality however, SSVEC is only required to purchase
8 approximately 47% of its power from AEPCO.¹⁵⁷

9 Staff performed an evaluation of SSVEC's procurement process for power purchases from
10 spot markets and suppliers other than AEPCO since becoming a PRM.¹⁵⁸ Staff also reviewed the
11 purchased power costs for 2008 to determine whether they were indicative of future costs.¹⁵⁹

12 SSVEC contended that it has an adequate power procurement program in place that it follows,
13 and that works well.¹⁶⁰ The company has relied heavily on its claim that SSVEC only purchases less
14 than 20% of its needs from the wholesale market since AEPCO currently supplies in excess of 80%
15 of its power needs.¹⁶¹ SSVEC also claims that 2008 was an anomalous year in terms of high energy
16 prices.¹⁶²

17 Staff believes that since becoming a PRM SSVEC has substantially increased its
18 responsibility for ensuring reliable and economic service to its customers.¹⁶³ These responsibilities
19 include conducting the planning for power supplies, including power purchases, for identifying and
20 evaluating power supply alternatives, for selecting their preferred power supplies, including power
21 purchases, and for implementing their decisions.¹⁶⁴ Staff agrees that purchased power prices from
22 January 1, 2008 through October 31, 2008 are not representative of prices for 2009 and beyond.

23
24 ¹⁵⁴ Ex. A-5 at 3.

¹⁵⁵ *Id.*

¹⁵⁶ *Id.*

25 ¹⁵⁷ Tr. at 172-73.

¹⁵⁸ *Id.* at 113.

26 ¹⁵⁹ *Id.*

¹⁶⁰ Ex. A-5 at 30.

27 ¹⁶¹ *Id.*

¹⁶² *Id.*

28 ¹⁶³ Confidential Direct Test. of Jerry Mendl, Ex. S-1 at 5.

¹⁶⁴ *Id.*

1 However, it is Staff's belief that this is not only due to unusual gas and electric power market prices,
2 as SSVEC asserts, but also due to the company developing more experience operating as a PRM.¹⁶⁵
3 Staff recommends that SSVEC develop more formal written procurement policies and procedures,
4 and that SSVEC be subject to a prudence review in SSVEC's next rate case or within three years,
5 whichever occurs first.¹⁶⁶

6 Initially SSVEC was opposed to developing written procurement procedures and processes,
7 but has since agreed to their development as long as they are flexible and not unduly burdensome.¹⁶⁷
8 SSVEC also agreed to file its written procedures as a compliance item in this case within 12
9 months.¹⁶⁸ SSVEC however opposes Staff's recommendation regarding a prudence review.¹⁶⁹

10 **A. Written Power Procurement Procedures And Processes.**

11 Rather than recommending specific procedures for SSVEC to adopt, Staff developed criteria
12 that SSVEC should consider when developing written procurement procedures.¹⁷⁰ However, in
13 developing written and documented formal power procurement procedures Staff believes that top-
14 level management should adopt the procedures to ensure the procedures are given high priority. The
15 written and adopted procedures will provide guidance to and a benchmark for measuring the
16 performance of those responsible for procuring power.¹⁷¹

17 The procurement procedures need to be communicated to the employees responsible for
18 implementing them.¹⁷² SSVEC should establish training programs, internal communications, job
19 performance criteria and job performance evaluations.¹⁷³ These procedures should establish clear
20 responsibilities, authorities and accountability for power purchase personnel.¹⁷⁴

21 SSVEC also needs to create a mechanism that allows it to systematically evaluate progress
22 and results.¹⁷⁵ This mechanism should monitor the results of the chosen power procurement

23
24 ¹⁶⁵ Tr. at 116-17.

¹⁶⁶ Surrebuttal Test. of Jerry Mendl, Ex. S-3 at 13.

¹⁶⁷ Rejoinder Test. of David M. Brian, Ex. A-6 at 2.

¹⁶⁸ Tr. at 168.

¹⁶⁹ Ex. A-6 at 13.

¹⁷⁰ Tr. at 151-52.

¹⁷¹ Ex. S-1 at 3-4.

¹⁷² *Id.*

¹⁷³ *Id.*

¹⁷⁴ Tr. at 119.

¹⁷⁵ *Id.*

1 approach and allow SSVEC to compare them to the results had other approaches been used.¹⁷⁶ This
2 mechanism should also allow SSVEC to identify opportunities for improvement and allow it to
3 change its procedures to improve power procurement performance.¹⁷⁷ This will help identify prudent
4 purchases and whether the procedures were followed.¹⁷⁸

5 Finally, the written procedures should include a provision that allows SSVEC to update the
6 procedures to incorporate improvements and mitigate deficiencies identified in the monitoring
7 phase.¹⁷⁹ This will give SSVEC the flexibility it needs, and will allow it to update its written
8 procedures when conditions warrant.¹⁸⁰

9 **B. Prudence Review.**

10 Staff is also recommending a prudence review of SSVEC's purchased power procurement
11 processes in the next rate case or within three years, whichever comes first.¹⁸¹ The timing and
12 purpose of this review is to give SSVEC time to fully develop and implement its written power
13 purchase procurement procedures, and that this issue would be revisited in a reasonable timeframe to
14 ensure SSVEC's customers are not paying excessive prices.¹⁸²

15 As indicated above, SSVEC claims that a prudence review is not necessary.¹⁸³ SSVEC claims
16 that because it is a nonprofit and that its owners and ratepayers are one and the same that it has a
17 natural built-in incentive to keep power costs down.¹⁸⁴ More specifically, SSVEC claims that the
18 purpose of a prudence review is to allocate the imprudent costs to the shareholders. In this case
19 SSVEC argues that since co-op owners and ratepayers are one and the same, a prudence review is
20 inapplicable.¹⁸⁵ However, this takes a too narrow of a view of the function and value of a prudence
21 review.¹⁸⁶ In addition, SSVEC claims that there is already more than adequate review of its
22 purchased power activities with its regular filings with the Commission relating to its fuel and
23

24 ¹⁷⁶ Tr. at 119.

¹⁷⁷ *Id.*

¹⁷⁸ *Id.*

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ Ex. S-3 at 2.

¹⁸² *Id.*

¹⁸³ Ex. A-6 at 13.

¹⁸⁴ *Id.*

¹⁸⁵ *Id.*

¹⁸⁶ Tr. at 122-23.

1 purchased power adjustment adder, and the fact that it is subject to the best practices embodied in
2 Decision No. 70032.¹⁸⁷

3 Staff does not believe SSVEC's distinction between a profit and nonprofit company is
4 valid.¹⁸⁸ The end result is ratepayers in both instances are upset when rates are unreasonable.
5 Similarly, SSVEC's claim that a prudence review does not makes sense in this case because SSVEC
6 is a cooperative, and its ratepayers and owners are same is also without merit. Taking this to its
7 logical conclusion, management of a cooperative could never do anything imprudent because it is
8 operating on behalf of the ratepayers.¹⁸⁹ A prudence review would simply improve the power
9 procurement process to make it more transparent.¹⁹⁰

10 Staff does not believe that the monthly filings or the best practices provide the same
11 safeguards that a prudence review provides.¹⁹¹ Regarding the monthly filings, Staff found that they
12 were in some instance incorrect and had to be refilled, and in a larger sense they did not create a
13 complete picture that a prudence review would provide.¹⁹² Regarding the best practices set forth in
14 Decision No. 70032, these practices only apply to longer term contracts, and how they should be
15 handled.¹⁹³ In other words, that decision focuses on requiring a bid process for longer term contracts,
16 whereas a prudence review focuses on the internal processes to determine how much to bid, when to
17 bid, and the specific types of products being sought.¹⁹⁴

18 SSVEC does agree that a prudence review would allow Staff to look at the company's
19 performance based written power procurement procedures that SSVEC developed and determine
20 whether the company is doing a good job with power procurement.¹⁹⁵ However, SSVEC claims a
21 review is not necessary because of the monthly filings and the best practices discussed above.
22
23

24 ¹⁸⁷ Ex. A-6 at 13-14.

25 ¹⁸⁸ Tr. at 122.

26 ¹⁸⁹ *Id.* at 123.

¹⁹⁰ *Id.*

¹⁹¹ *Id.* at 124.

27 ¹⁹² *Id.* at 124-25.

¹⁹³ *Id.* at 125.

28 ¹⁹⁴ *Id.* at 125-26.

¹⁹⁵ *Id.* at 181.

1 Ultimately, the company admits that its opposition to a prudence review is a matter of cost and
2 burden.¹⁹⁶

3 In this instance however, Staff believes a prudence review would give SSVEC and the
4 Commission the opportunity to evaluate the procedures it has developed, and whether those
5 procedures worked in reality.¹⁹⁷ While there may be a punitive aspect to a prudence review, its main
6 purpose in this case is to help ensure that resources are not imprudently incurred.¹⁹⁸ So while a
7 review may serve to allocate imprudent costs, it also assists in avoiding imprudent costs.¹⁹⁹ Another
8 overriding factor here is that SSVEC became a PRM on January 1, 2008. A review would allow Staff
9 the opportunity to revisit SSVEC's procurement history once its written procedures are in place, and
10 the company has gained more experience.


11 **VIII. AGREED TO ISSUES**

12 Staff conferred with SSVEC regarding issues in this case where the parties are in agreement.
13 Staff agrees with SSVEC's list of issues except that the DSM rate should be \$0.000474 per kWh due
14 to the approval of 2009 DSM programs. Staff's analysis of these programs and the DSM rate is
15 addressed in the supplemental testimony attached as Exhibit A.

16 **IX. CONCLUSION**

17 The Commission should adopt Staff's recommendations in this case as contained in its
18 Testimony and herein. Staff's recommendations will result in just and reasonable rates for SSVEC.

19 RESPECTFULLY SUBMITTED this 22nd day of May, 2009.

20
21 
22 Wesley C. Van Cleve, Attorney
23 Legal Division
24 Arizona Corporation Commission
25 1200 West Washington Street
26 Phoenix, Arizona 85007
27 (602) 542-3402

27 ¹⁹⁶ Tr. at 183.

28 ¹⁹⁷ Id. at 121.

¹⁹⁸ Id. at 123.

¹⁹⁹ Id.

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A handwritten signature in cursive script, appearing to read "Costana Thompson", is written over a horizontal line.

EXHIBIT A

SUPPLEMENTAL

TESTIMONY

OF

STEVE IRVINE

DOCKET NO. E-01575A-08-0328

**IN THE MATTER OF THE APPLICATION OF
SULHPUR SPRINGS VALLEY ELECTRIC
COOPERATIVE, INC. FOR A HEARING TO
DETERMINE THE FAIR VALUE OF ITS
PROPERTY FOR RATEMAKING PURPOSES,
TO FIX A JUST AND REASONABLE
RETURN THEREON, TO APPROVE RATES
DESIGNED TO DEVELOP SUCH RETURN
AND FOR RELATED APPROVALS**

MAY 22, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. E-01575A-08-0328
SULHPUR SPRINGS VALLEY ELECTRIC)	
COOPERATIVE, INC. FOR A HEARING TO)	
DETERMINE THE FAIR VALUE OF ITS)	
PROPERTY FOR RATEMAKING PURPOSES,)	
TO FIX A JUST AND REASONABLE)	
RETURN THEREON, TO APPROVE RATES)	
DESIGNED TO DEVELOP SUCH RETURN)	
<u>AND FOR RELATED APPROVALS</u>)	

SUPPLEMENTAL

TESTIMONY

OF

STEVE IRVINE

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MAY 22, 2009

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EXECUTIVE SUMMARY
SULPHUR SPRINGS VALLEY ELECTRIC COOPERATIVE, INC.
DOCKET NO. E-01575A-08-0328

The purpose of this supplemental testimony is to comment on new demand-side management ("DSM") programs requested by Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC"). Staff has previously recommended that SSVEC file a new application requesting approval of the new DSM programs proposed by SSVEC in this docket in order to allow an opportunity for gathering of information and consideration of the new programs in greater detail. SSVEC subsequently requested that the proposed programs be evaluated in this docket and allowed time for the filing of this supplemental testimony. This testimony addresses the Energy Efficient Water Heater Rebate program, the Commercial and Industrial Energy Efficiency Improvement Loan program, the Energy Efficient New Home or Remodel Rebate program, and DSM Expense Reports for 2007 and 2008. Staff makes the following recommendations:

- Staff recommends approval of the Energy Efficient Water Heater Rebates program with certain changes as discussed in this supplemental testimony.
- Staff recommends that the eligibility threshold for the energy factor of water heaters simply be that the purchased water heater's energy factor be greater than the federal standard for new manufacture.
- Staff recommends that the water heater rebate be set at \$100.
- Staff recommends that SSVEC operate the water heater program without providing incentives for tankless water heaters at this time.
- Staff recommends that the Commercial and Industrial Energy Efficiency Improvement Loan program be approved as a pilot-program for a period of sixteen months. Staff further recommends that following the twelfth month of operation of the program, SSVEC make a filing detailing its experience with the program and a recommendation regarding continuation of the program as described herein.
- Staff recommends that loans made in the Industrial Energy Efficiency Improvement Loan program be interest free.
- Staff recommends that the Energy Efficient Improvement Loan Program operate without the application of an interest rate to the loans in order to make them more accessible to customers.

- Staff recommends that the proposed Energy Efficient New Home or Remodel Rebate program be denied.
- Staff recommends that SSVEC discontinue offering any incentive related to the replacement of any heating or cooling appliance using an energy source other than electricity with an electric appliance in order to not promote fuel switching.
- Staff now recommends a DSM adjustor rate of \$0.000474 per kWh.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Steve Irvine. I am a Public Utilities Analyst IV employed by the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff").

5
6 **Q. Have you previously filed testimony in this case?**

7 A. Yes. I have filed both direct and surrebuttal testimony.

8
9 **Q. What is the purpose of this supplemental testimony?**

10 A. The purpose of this supplemental testimony is to comment on new demand-side
11 management ("DSM") programs requested by Sulphur Springs Valley Electric
12 Cooperative, Inc. ("SSVEC" or "Company"). Staff has previously recommended that
13 SSVEC file a new application requesting approval of the new DSM programs proposed by
14 SSVEC in this docket in order to allow an opportunity for gathering of information and
15 consideration of the new programs in greater detail. SSVEC subsequently requested that
16 the proposed programs be evaluated in this docket and allowed time for the filing of this
17 supplemental testimony. This testimony addresses the Energy Efficient Water Heater
18 Rebate program, the Commercial and Industrial Energy Efficiency Improvement Loan
19 Program, the Energy Efficient New Home or Remodel Rebate program, and DSM
20 Expense Reports for 2007 and 2008.

EVALUATION OF PROPOSED DSM PROGRAMS

Q. Please briefly describe the new programs that SSVEC seeks approval of in this application.

A. There are three new programs for which SSVEC seeks approval: Energy Efficient Water Heater Rebates, Commercial and Industrial Energy Efficiency Improvement Loan Program, and Energy Efficient New Home or Remodel Rebate programs.

ENERGY EFFICIENT WATER HEATER REBATES PROGRAM

Q. Please describe the proposed Energy Efficient Water Heater Rebates program.

A. In its Application, SSVEC is proposing a \$150 incentive for the replacement of a water heater with a more energy efficient water heater that has an energy factor of 0.93 or with a tankless water heater. In addition, SSVEC is proposing a \$300 rebate for an installation in a new home. SSVEC proposes a \$25,000 annual budget initially for this program.¹ In a response to a Staff data request, SSVEC stated that the higher \$300 rebate for a home that currently does not have an electric water heater.² Based on the information provided by the Company, Staff could only conclude that the rebate would apply to an existing home currently having either a natural gas water heater or no water heater.

Q. How does SSVEC also describe the purpose of the Energy Efficient Water Heater Rebates program?

A. In response to a data request SSVEC described that the purpose of the program is to manage costs and realize efficiencies by 1) decreasing the monthly peak demand and 2) improving system load factor. SSVEC also states that the program promotes the use of more efficient water heaters, which reduce standby losses, to impact the monthly peak without losing the kWh consumption to support the system load factor.

¹ Application. SSVEC witness Jack Blair. Page 12.

² Supplemental Attachment STF 12-4. SSVEC data response. February 20, 2009.

1 **Q. What level of participation does SSVEC expect?**

2 A. SSVEC expects 130 participants for replacement water heaters and 10 water heaters for
3 new homes. SSVEC representatives have stated that 20 to 30 of these were likely to be
4 tankless heaters based on recent experience.

5
6 **Q. What savings does SSVEC expect in regard to kW and/or kWh?**

7 A. SSVEC states in response to a data request that the benefit to SSVEC is the potential
8 removal of 4.5 kW from the afternoon system peak which has a potential benefit of \$67.50
9 per peak month (\$15.00 X 4.5 kW) 8-10 months of the year. SSVEC also states that
10 tankless fossil fuel water heaters eliminate all standby losses and contribute nothing to the
11 peak system demand and lower the system load factor. SSVEC also states that electric
12 tankless heaters can contribute up to an additional 18 kW at the time of the system peak.

13
14 **Q. Please describe the process of obtaining rebates through the Energy Efficient Water**
15 **Heater Rebates program.**

16 A. SSVEC explains that customers would fill out a request for rebate and provide
17 documentation to verify the make, model, and energy factor of the new water heater.
18 Some random field visits would be performed to validate the installation. The energy
19 factor is verified via industry rating data from publications or manufacturers' websites.
20 Advertising and marketing would be limited to Currents magazine, flyers at customer
21 service counters, bill messages, and combined with other DSM advertising in newspaper
22 and radio.

23

1 **Q. Does Staff agree with SSVEC's proposal for the \$300 rebate for new homes?**

2 A. No. Staff does not believe that the costs for a water heater are higher for a new home than
3 for an existing home.
4

5 **Q. What comments does Staff have about SSVEC's proposal for the Energy Efficient**
6 **Water Heater Rebates program in regard to the efficiency factor required for**
7 **eligibility?**

8 A. Staff has a recommendation for the efficiency factor level required for eligibility based on
9 the federal standards. The federal government has established a minimum energy factor
10 for manufacture of new water heaters. The factor differs based on the size of the water
11 heater. The applicable energy factor is determined through application of a formula.³
12 Using the formula, Staff calculated that the following energy factors apply:

13
14 Table I

15	16	17	18	19	20	21	22	23
			<u>Rated Storage</u>				<u>Energy Factor</u>	
			<u>Volume in Gallons</u>				<u>Required for</u>	
							<u>New Manufacture</u>	
			30				0.93	
			40				0.92	
			50				0.90	
			80				0.86	

24 SSVEC's energy factor threshold of 0.93 does not appear to give consideration to the
25 variation in federal energy factor requirement for manufacture that applies to differing
26 sizes as seen above. Consider, for instance, a customer replacing a 30 gallon water heater.
27 That customer would be eligible to receive the incentive even though it would be on the
28 least efficient water heater that could be manufactured after January 20, 2004. While it is
29 possible that the customer could potentially purchase a water heater from stock

³ Energy Factor requirement = $0.97 - (.00132 \times \text{rated storage volume in gallons})$

1 manufactured prior to 2004, it is also possible that the customer could only find a 30
2 gallon electric water heater with a 0.93 energy factor rating available for purchase. Staff
3 reviewed the website of a large national chain hardware supplier and found that the
4 company only sold 30 gallon electric water heaters with a 0.93 energy factor rating online.
5 If only a 0.93 energy factor 30 gallon water heater is available for purchase, DSM
6 incentive funding provided for purchase of 30 gallon water heaters would not result in a
7 customer obtaining a more efficient water heater than what would have been purchased
8 otherwise.

9
10 Also, consider a customer replacing an 80 gallon electric water heater. That customer
11 would need to purchase a water heater much more efficient than the federal standard to
12 meet the 0.93 energy factor threshold for incentive eligibility. Application of a single
13 energy factor rate, such as 0.93, creates disparity in the degree to which a customer must
14 upgrade his purchase based on size of the water heater. This disparity is illustrated in
15 Table II.

Table II

<u>Energy Factor Rated Storage Volume in Gallons</u>	<u>Federal Requirement for New Manufacture</u>	<u>SSVEC's Proposed Eligibility Threshold</u>	<u>Difference</u>
30	0.93	0.93	0.00
40	0.92	0.93	0.01
50	0.90	0.93	0.03
80	0.86	0.93	0.07

25
26 This example, in Table II, assumes that SSVEC's proposal to set eligibility at an energy
27 factor of 0.93 without regard to the size of the water heater. It demonstrates that

1 depending on size, a customer may need to purchase a progressively more efficient water
2 heater than the national standard for manufacture as the size of the water heater increases.
3 This is problematic because SSVEC's proposal may result in no greater efficiency than
4 what would be available at the 30 gallon level, and could make obtaining an incentive
5 payment for water heaters of larger sizes difficult if water heaters that are much more
6 efficient than the national standard for manufacture are not available. For this reason,
7 Staff recommends that the eligibility threshold for the energy factor of water heaters
8 simply be that the purchased water heater's energy factor be greater than the federal
9 standard for new manufacture. The appropriate federal standard for each commonly sized
10 water heater (e.g.: 30, 40, 50 gallons etc) should be listed in SSVEC's program
11 descriptions with an invitation to contact the company for information about any other
12 sizes not included in order to provide customers with the information rather than requiring
13 that the customer calculate the threshold on their own. SSVEC should seek Commission
14 approval to update the thresholds in the future should the federal formula change.
15

16 **Q. What comments does Staff have about the costs and benefits of the water heater**
17 **program?**

18 A. Staff performed a cost-benefit analysis of the program and calculated that it would be
19 cost-effective. Staff's analysis was based on a 50 gallon water heater, the most typical
20 size, being upgraded from a 0.90 energy factor to a 0.92 energy factor. The incremental
21 cost of the more efficient 0.92 energy factor water heater realizes cost savings based on
22 Staff's analysis.
23

24 **Q. Please describe the cost-benefit analysis performed by Staff.**

25 A. Staff's cost-benefit analysis makes use of a model that calculates and compares the present
26 value of cost of a DSM measure to the present value of the savings realized by the

1 measure. The calculation produces a ratio that indicates whether there is a net savings or
2 net cost for the DSM measure given various conditions used as inputs to the model. The
3 model considers costs of the DSM measure and utility program costs of the DSM
4 program. The modeled savings that these costs are compared to are calculated giving
5 consideration to the incremental kW and kWh savings that would be realized from
6 reduced demand and consumption resulting from the DSM measure. Other factors such as
7 discount rate are used to obtain the present value of future costs and savings. When the
8 ratio produced by the model is one, the savings realized by the program are equal to the
9 costs of the program. When the ratio produced by the model is less than one, the savings
10 realized by the program are less than the costs of the program. When the ratio produced
11 by the model is greater than one, the savings realized by the program are greater than the
12 costs of the program. The costs and savings are modeled, rather than actual, figures based
13 on inputs that Staff finds reasonable. The costs and savings that may occur in actual
14 practice may differ from those used in the model as a result of different than expected cost
15 of power, cost of DSM equipment, and other factors.

16
17 **Q. What ratio did Staff's cost-benefit model yield for SSVEC's proposed Energy**
18 **Efficient Water Heater Rebates program?**

19 A. Staff's cost-benefit analysis for the program, excluding the tankless water heater portion
20 of the program, yields a ratio of benefits to costs of 1.2. This ratio indicates that the
21 program would yield net benefits given the assumptions used in the model.

22
23 **Q. Are there other considerations that are not included in Staff's cost-benefit model?**

24 A. Yes. Staff's model makes use of measures of savings that are clear and easy to quantify,
25 such as the cost of the program and the savings related to kW and kWh. Other benefits of
26 DSM programs can exist that are not considered in the model. Environmental benefits are

1 likely to exist on any occasion in which there is a reduction to either kW or kWh. When
2 less electricity is generated, typically fewer emissions from electric generation facilities
3 are created. A reduction in emissions has environmental benefits. Typically, the source of
4 incremental power is from natural gas fired generation turbines. While natural gas is a
5 comparatively cleaner fuel than coal or oil, emissions from natural gas generation does
6 contain nitrogen oxides and carbon dioxide. These emissions are harmful to the
7 environment and consequently have an environmental and societal cost. As
8 environmental and societal benefits related to reduction of harmful emissions are difficult
9 to quantify, they have not been included as factors in Staff's cost-benefit model.
10

11 **Q. What does SSVEC propose regarding tankless water heaters?**

12 A. In Direct Testimony, SSVEC describes that it "offers a \$150 one-time rebate for the
13 installation of a replacement electric water heater (with an energy factor of .93) and
14 tankless water heaters."⁴ SSVEC's description of this portion of the program does not
15 clearly state that a rebate would only be provided for acquisition of a tankless water heater
16 that was used as a replacement for a storage electric water heater. The description does
17 not indicate that any energy standard or other requirement would be used as criteria for
18 eligible tankless water heaters. SSVEC did not provide a cost-benefit analysis of the
19 tankless water heater portion of the proposed Energy Efficient Water Heater Rebates
20 program either in testimony or in response to Staff's data requests.

⁴ Attachment A to Direct Testimony SSVEC witness Jack Blair. Page 3.

1 **Q. Did Staff also conduct an analysis of the costs and benefits of the tankless water**
2 **heater portion of SSVEC's proposed Energy Efficient Water Heater Rebates**
3 **program?**

4 A. Through Staff's research on the matter of the efficiencies realized by tankless water
5 heaters Staff has learned that Energy Star ratings for tankless water heaters only apply to
6 gas rather than electric heaters. Tankless electric water heaters are not Energy Star
7 qualified at this time. The U.S. Department of Energy webpage includes links to external
8 sites for further information regarding tankless water heaters and the potential savings
9 related to their use. One link that addresses potential savings states the following: "We
10 were not able to locate any independent research studies that evaluated the energy savings
11 of these devices" and "On demand hot water systems may be a good choice for reducing
12 hot water demand, but there needs to be additional research to validate manufacturers'
13 claims of savings."⁵ The *Energy Star Residential Water Heaters: Draft Criteria Analysis*
14 states, "The best electric tankless water heaters can only achieve a 0.99 Energy Factor,
15 which is just 9.5% more efficient than the Federal standard. The energy savings do not
16 justify the cost of the retrofit. Electric tankless water heaters are impractical for most
17 homes given the immense electrical requirements and retrofit costs for whole-home
18 service."⁶

19
20 **Q. What concerns does Staff have about SSVEC's proposed \$150 incentive level?**

21 A. Based on information provided to Staff by SSVEC, the incremental cost associated with
22 an upgrade to the 0.92 energy factor water heater is approximately \$135. SSVEC's
23 proposed incentive payment, or rebate, of \$150 is greater than this \$135 incremental cost.

⁵ http://www.h2ouse.org/tour/details/element_action_contents.cfm?elementID=3E2076E2-253A-4AC4-BDFD339B8BDE767B&actionID=284A0F57-9F53-41B2-B43CAEFB6E12CC4D

⁶ http://www.energystar.gov/ia/partners/prod_development/new_specs/downloads/water_heaters/WaterHeaterDraftCriteriaAnalysis.pdf

1 The \$150 incentive would be more than the incremental cost needed for a customer to
2 upgrade to the more efficient 0.92 energy factor water heater. The remaining \$15 (\$150
3 incentive - \$135 incremental cost) would not serve to fund the incremental difference in
4 cost between a 0.90 energy factor and 0.92 energy factor water heater. In previous cases,
5 Staff has recommended that incentive levels be set at 75 percent of the incremental cost of
6 a higher efficiency appliance. At a 75 percent level, the customer pays some part (25
7 percent) of the cost of the upgrade, yet the vast majority of the cost (75 percent) is
8 provided through the incentive.

9
10 **Q. What is Staff's recommended incentive level?**

11 A. In order to not fund more than the typical incremental cost of a more efficient water
12 heater, to cause the customer to fund some part of the incremental cost, and to make
13 Staff's recommendation consistent with the past practice, Staff recommends that the water
14 heater rebate be set at \$100. This figure is approximately 75 percent of \$135, which is an
15 average incremental cost to upgrade a 50 gallon water heater from a 0.90 energy factor to
16 a 0.92 energy factor.

17
18 **Q. Does Staff recommend approval of the Energy Efficient Water Heater Rebates**
19 **program?**

20 A. Staff recommends approval of the Energy Efficient Water Heater Rebates program with
21 certain changes as discussed in this supplemental testimony.

22
23 **Q. Does Staff have other comments about SSVEC's proposal for the Energy Efficient**
24 **Water Heater Rebates program?**

25 A. Yes. As Energy Star does not yet consider electric tankless water heaters eligible for the
26 Energy Star label and SSVEC has not provided a cost benefit analysis that demonstrates a

1 cost benefit from use of electric tankless water heaters, Staff recommends that SSVEC
2 operate the water heater program without providing incentives for tankless water heaters
3 at this time.

4
5 **COMMERCIAL AND INDUSTRIAL ENERGY EFFICIENCY IMPROVEMENT LOAN**
6 **PROGRAM**

7 **Q. Please describe the proposed Commercial and Industrial Energy Efficiency**
8 **Improvement Loan Program ("C&I EEI loan program").**

9 A. In direct testimony, SSVEC explains that the C&I EEI loan program offers loans with a 3
10 percent interest rate for C&I customers to upgrade attic insulation, wall insulation,
11 windows, heating, cooling (except evaporative cooling), and lighting. SSVEC further
12 explains that the customer would have to provide supporting documentation as to the
13 estimated percentage of improvement, which, in turn, would be reviewed by SSVEC to
14 ensure that the project is economically viable.⁷ SSVEC proposes an annual loan budget of
15 \$150,000.

16
17 **Q. Did Staff issue data request seeking clarification or additional information on the**
18 **eligibility of measures?**

19 A. Yes. SSVEC responded as follows:

20
21 "Because of the wide variations in businesses in our service area we did not
22 want to try and anticipate the options or exclude new and emerging
23 technologies. Our proposed criteria to approve the program will the (*sic*)
24 improvements lower the customer's energy cost enough to make the
25 payments on the loans. There may be times where the customer will invest
26 additional capital to satisfy their internal rate of return or other internal
27 policies. We want to keep the focus on a project basis so that portions with
28 a very fast cost recovery (such as lighting upgrades) can support other
29 portions of the project that would not make the savings criteria by

⁷ Attachment A to Direct Testimony SSVEC witness Jack Blair. Page 5.

1 themselves but are still a good long term investment. For Example: We
2 had a large C&I customer go out for a performance contract where the
3 savings delivered by the lighting upgrade made it possible to include
4 improvements to motors that when included in the overall project met their
5 ROI but would have failed to meet their ROI target as a "stand alone"
6 project."
7

8 It appears to Staff that it is SSVEC's intention is to consider any proposed measure rather
9 than the specific measures listed in Attachment A (page 5) of Mr. Blair's direct testimony.
10

11 **Q. Does Staff have any concerns about the proposed Commercial and Industrial Energy**
12 **Efficiency Improvement Loan Program?**

13 A. Yes. Since SSVEC is proposing to consider loans for any measure proposed by a
14 customer and subsequently approved by SSVEC, Staff is unable to perform a cost-benefit
15 analysis of the measures that may be proposed by customers in the future not knowing
16 what they may be, should the program be approved unconditionally.
17

18 **Q. What is Staff's conclusion about the proposed Commercial and Industrial Energy**
19 **Efficiency Improvement Loan Program?**

20 A. It is not clear to Staff what eligibility requirements SSVEC would apply to proposals
21 under this program. SSVEC has mentioned that it would 'recommend' that Energy Star
22 ratings be used as a guide, but has not indicated that meeting Energy Star ratings would be
23 a requirement. Staff has endeavored to learn enough about SSVEC's intentions regarding
24 their proposed programs through data requests to SSVEC, but has not yet collected
25 enough information about the Commercial and Industrial Energy Efficiency Improvement
26 Loan Program to perform a cost-benefit analysis and make a determination. Staff
27 concludes that at this time it lacks sufficient information to perform a cost-benefit analysis
28 of this program.
29

1 **Q. What other concerns does Staff have about the proposed Commercial and Industrial**
2 **Energy Efficiency Improvement Loan Program?**

3 A. Yes. Staff asked SSVEC in a data request, "Would projects that involved the switching of
4 gas appliances for electric appliances be eligible under this program?" SSVEC's response
5 was, "If the switching of source energy contributes to the lowering of the operational
6 expenses then it would meet the intent of the program." Staff believes that DSM
7 programs should not promote fuel switching. In addition, Staff is concerned about the fact
8 that the Company is proposing to charge 3 percent interest.

9
10 **Q. What is Staff's recommendation regarding the Commercial and Industrial Energy**
11 **Efficiency Improvement Loan Program?**

12 A. Staff recommends that the program be approved as a pilot-program for a period of sixteen
13 months. Staff recommends that following the twelfth month of operation of the program,
14 SSVEC make a filing detailing its experience with the program and a recommendation
15 regarding continuation of the program. The filing should include information including,
16 but not limited to: a description of each proposal granted a loan, the analysis used by
17 SSVEC to approve the loan(s), a cost-benefit analysis of the proposed projects measuring
18 net benefits when comparing the incremental cost of the project to the avoided cost of
19 incremental energy, and any available evidence of the customers having realized a load
20 reduction following implementation of the DSM measure(s). Should the Commission not
21 issue a Decision on continuation of the program prior to the end of the sixteenth month of
22 operation of the pilot-program, the pilot-program should continue to operate until the
23 issuance of a Commission Decision on the matter.

1 **Q. Does Staff have any additional recommendation regarding the proposed Commercial**
2 **and Industrial Energy Efficiency Improvement Loan Program?**

3 A. Staff recommends that loans made in the Industrial Energy Efficiency Improvement Loan
4 program be interest free. Interest free loans will be more accessible to customers and
5 SSVEC has provided no rationale for the application of an interest rate to the loans.
6 Similarly, Staff recommends that the Energy Efficient Improvement Loan Program
7 operate without the application of an interest rate to the loans in order to make them more
8 accessible to customers.
9

10 **ENERGY EFFICIENT NEW HOME OR REMODEL REBATE PROGRAM**

11 **Q. Please describe the proposed Energy Efficient New Home or Remodel Rebate**
12 **program.**

13 A. In direct testimony, SSVEC states that the program will offer rebates for new or retrofitted
14 homes that are equipped with appliances that meet or exceed Energy Star ratings and
15 SEER ratings of 14 or above. SSVEC would offer an incentive of \$1,500 per home.
16 SSVEC proposes that the annual budget for the program be \$250,000.⁸ In response to a
17 data request, SSVEC further explained that the SEER requirement for HVAC equipment
18 would be a SEER rating of 14. SSVEC also further explained that appliances eligible for
19 the program would either need to be Energy Star rated, or within the top 10 percent of
20 energy efficiency for that appliance, based on the yellow energy usage guide required by
21 the U.S. Department of Energy. In a data request to SSVEC, Staff asked what kinds of
22 appliances are eligible under the program. SSVEC responded that, "The appliances we
23 are "Targeting" are those that are not typically removed from the home when the customer
24 moves, such as: Ranges/Ovens using Energy Star as a criterion, Water Heaters based on
25 the Energy Factor rating, HVAC based on SEER." It is unclear from SSVEC's response

⁸ Attachment A to Direct Testimony SSVEC witness Jack Blair. Page 3.

1 whether only ranges/ovens, water heaters, and HVAC systems are eligible, or whether
2 SSVEC's use of the word "Targeting" is meant to convey that only these three kinds of
3 appliances are eligible or whether they are simply the preferred appliances and that other
4 appliances may also be eligible.

5
6 **Q. How has Staff attempted to evaluate the proposed Energy Efficient New Home or**
7 **Remodel Rebate program?**

8 A. Staff has performed a cost-benefit analysis of SSVEC's proposal for incentives for water
9 heaters in its proposed Energy Efficient Water Heater Rebate program. Staff has also
10 performed a cost-benefit analysis of SSVEC's changed SEER level requirement for
11 HVAC equipment in its existing Energy Efficient Heat Pump Rebate program. In both
12 cases, Staff found these measures to yield net benefits. At this time, Staff has not yet
13 conducted an analysis on the cost-benefit of upgrades to ranges and ovens using Energy
14 Star standards. Staff has also not yet clarified if other appliances are also eligible and if
15 so, what other appliances are eligible. Staff attempted to learn this information through
16 data request, but found the responses inconclusive.

17
18 **Q. Did Staff request a cost-benefit analysis from SSVEC?**

19 A. Yes. Based on the information provided by the Company, and the cost-benefit analyses
20 conducted by Staff when evaluating other measures, Staff does not believe that the
21 information provided would allow Staff to make an informed recommendation.

22
23 **Q. Does Staff have any other concerns about the proposed Energy Efficient New Home**
24 **or Remodel Rebates program?**

25 A. Yes. Staff asked SSVEC in a data request, "Would the program allow a participant to
26 receive a rebate when replacing a gas appliance?" SSVEC's response was, "If the

1 participant replaces it with an Energy Star electric appliance.” Staff believes that DSM
2 programs should not promote fuel switching. Additionally, the information provided by
3 SSVEC in regard to the program does not describe minimum requirements in regard to the
4 number, or combination of appliance upgrades needed for eligibility for an incentive
5 payment under this program. For instance, it appears to Staff from the information
6 provided that a customer who took no other action than to upgrade a gas Ranges/Oven to
7 an Energy Star rated electric Ranges/Oven could receive a \$1,500 incentive payment.
8

9 **Q. What is Staff’s recommendation for the proposed Energy Efficient New Home or**
10 **Remodel Rebate program?**

11 A. Staff recommends that the proposed Energy Efficient New Home or Remodel Rebate
12 program be denied. SSVEC currently has programs that provide for upgrades to water
13 heaters and heat pumps through SSVEC’s proposed Energy Efficient Water Heater Rebate
14 program and the existing Energy Efficient Heat Pump Rebate program respectively. Staff
15 notes that SSVEC may file an application that includes more detailed information
16 describing the proposed operation of the program, includes a cost-benefit analysis of the
17 program, and requests approval of the program. This would allow for further clarification
18 of SSVEC’s intentions for this program and further consideration in regard to the cost-
19 benefit of the proposed program so that the Commission may make a more fully informed
20 decision in this matter.

STAFF'S PROPOSED DSM ADJUSTOR RATE

Q. Does approval of the Energy Efficient Water Heater Rebate program and the Commercial and Industrial Energy Efficiency Improvement Loan program require some adjustment to Staff's proposed initial DSM adjustor rate?

A. Yes. Should the proposed Energy Efficient Water Heater Rebate program be approved and the proposed \$25,000 budget level for the program also be approved, it is also appropriate to adjust the initial DSM adjustor rate recommended by Staff so that recovery for the costs of the Energy Efficient Water Heater Rebate program can occur. This is also true for the Commercial and Industrial Energy Efficiency Improvement Loan program and its \$150,000 budget.

Q. How should the added costs of these programs be factored into the calculation of the DSM adjustor rate?

A. The respective program budget totals should be included in the numerator of the equation used to calculate the DSM adjustor rate. The equation was originally included in Staff's direct testimony. The formula including the added costs of the proposed Energy Efficient Water Heater Rebate program and Commercial and Industrial Energy Efficiency Improvement Loan program is as follows:

(100 percent of annual budget for presently approved programs + proposed budget for Energy Efficient Water Heater Rebate program + proposed budget for Commercial and Industrial Energy Efficiency Improvement Loan program / Staff's kWh quantity)

$\$204,396.17 + \$25,000 + \$150,000 / 799,860,156 \text{ kWh's} = \$0.000474 \text{ per kWh.}$

1 **Q. What DSM adjustor rate does Staff now recommend?**

2 A. Staff now recommends a DSM adjustor rate of \$0.000474 per kWh as calculated above.
3

4 **DSM EXPENSE REPORTS (2007 AND 2008)**

5 **Q. Has Staff evaluated the DSM expense reports for 2007 and 2008?**

6 A. Yes. Staff has sent a letter to SSVEC commenting on the reports and detailing eligible
7 expense recovery.
8

9 **Q. Does Staff have any comments in regard to its evaluation of the 2007 and 2008 DSM**
10 **expense reports?**

11 A. Yes. SSVEC reports offering a \$200 incentive for the replacement of a dual-fuel heating
12 and air conditioning unit with a high-efficiency heat pump. Staff recommends that
13 SSVEC discontinue offering any incentive related to the replacement of any heating or
14 cooling appliance using an energy source other than electricity with an electric appliance
15 in order to not promote fuel switching.
16

17 **SUMMARY OF STAFF RECOMMENDATIONS**

18 **Q. Please summarize Staff's supplemental testimony recommendations.**

19 A. Staff's supplemental testimony recommendations are as follows:

- 20 • Staff recommends approval of the Energy Efficient Water Heater Rebates program with
21 certain changes as discussed in this supplemental testimony.
22 • Staff recommends that the eligibility threshold for the energy factor of water heaters
23 simply be that the purchased water heater's energy factor be greater than the federal
24 standard for new manufacture.
25 • Staff recommends that the water heater rebate be set at \$100.

- 1 • Staff recommends that SSVEC operate the water heater program without providing
- 2 incentives for tankless water heaters at this time.
- 3 • Staff recommends that the Commercial and Industrial Energy Efficiency Improvement
- 4 Loan program be approved as a pilot-program for a period of sixteen months. Staff
- 5 further recommends that following the twelfth month of operation of the program, SSVEC
- 6 make a filing detailing its experience with the program and a recommendation regarding
- 7 continuation of the program as described herein.
- 8 • Staff recommends that loans made in the Industrial Energy Efficiency Improvement Loan
- 9 program be interest free.
- 10 • Staff recommends that the Energy Efficient Improvement Loan Program operate without
- 11 the application of an interest rate to the loans in order to make them more accessible to
- 12 customers.
- 13 • Staff recommends that the proposed Energy Efficient New Home or Remodel Rebate
- 14 program be denied.
- 15 • Staff recommends that SSVEC discontinue offering any incentive related to the
- 16 replacement of any heating or cooling appliance using an energy source other than
- 17 electricity with an electric appliance in order to not promote fuel switching.
- 18 • Staff now recommends a DSM adjustor rate of \$0.000474 per kWh.

19

20 **Q. Does this conclude your supplemental testimony?**

21 **A. Yes, it does.**